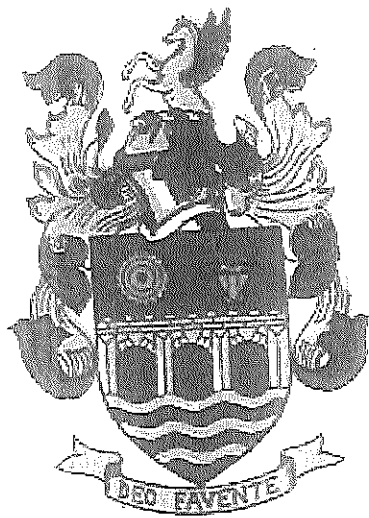


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Audited  
By  
2015 -11-30  
Auditor General South Africa  
Mpumalanga Business Unit



**LEKWA LOCAL MUNICIPALITY**  
(Registration number MP305)  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### General Information

Nature of business and principal activities

Executive Mayor

Speaker

Chief Whip

Member of Mayoral Committee - Technical Services  
and Development and Planning

Speaker

Councillors

Local Municipality  
Cllr. LBR Dhlamini (Appointed 29 July 2015)  
Cllr. HM Khota (Appointed 29 July 2015)  
Cllr. GS Msibi  
Cllr. MM Ntuli

Cllr. HM Khota (Appointed 29 July 2015)

Cllr. JF Buthelezi

Cllr. JR De Ville

Cllr. LBR Dhlamini

Cllr. SS Gumede

Cllr. JL Jansen Van Rensburg

Cllr. TA Khanyile

Cllr. HM Khota

Cllr. MY Khumalo

Cllr. MS Khumalo

Cllr. MG Makhanye

Cllr. JP Masuku

Cllr. MM Mntsi

Cllr. ML Molaba

Cllr. CM Morajane

Cllr. SS Mosisa

Cllr. JB Mthopeng

Cllr. P Mphuthi

Cllr. GS Msibi

Cllr. AS Ngwenya

Cllr. NL Nkosi

Cllr. MD Rakitla

Cllr. F Sarang

Cllr. PT Schnetler

Cllr. BG Sekhonde

Cllr. ENK Shabangu

Cllr. BS Sibeko

Cllr. PC Sikhakhane

Cllr. NZE Sitsheoni

Cllr. N Tshabalala

Cllr. MR Tshabalala

Cllr. JJ Van Der Walt

Cllr. SM Zacarias

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Auditor General South Africa  
Mpumalanga Business Unit

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## Lekwa Local Municipality

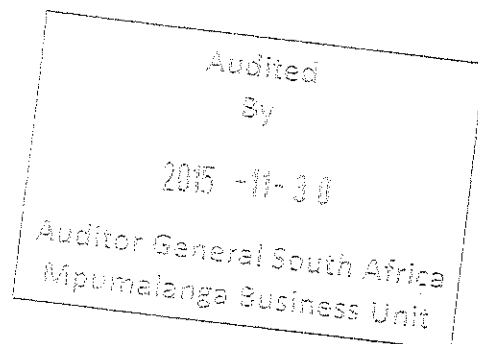
(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### General Information

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Grading of local authority	Local Municipality Category B Municipality as defined by the Municipal Structures Act no. 117 of 1998
Accounting Officer	LB Tshabalala
Chief Finance Officer (CFO)	R.A. Morris (Appointed 1 July 2015)
Registered office	C/O Mbonani Mayisela and Dr Beyers Naudé Street Standerton 2430
Business address	C/O Mbonani Mayisela and Dr Beyers Naudé Street Standerton 2430
Postal address	PO Box 66 Standerton 2430
Bankers	First National Bank Limited
Auditor	Auditor-General South Africa
Attorneys	Gildenhuys Malatji Attorneys
Rounding	All amounts have been rounded to the nearest R1
Website	<a href="http://www.lekwalm.gov.za">www.lekwalm.gov.za</a>
Contact Number	(T) +27 (17) 712 9600 (F) +27 (17) 712 6808



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## Lekwa Local Municipality

(Registration number MP305)

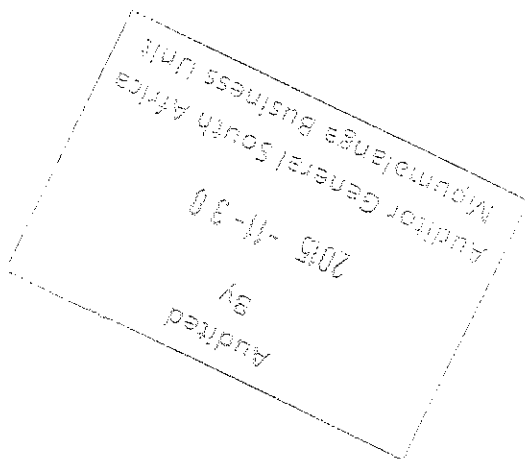
Annual Financial Statements for the year ended 30 June 2015

### Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

#### Contents

Pages	
5	ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL
6 - 7	ACCOUNTING OFFICER'S REPORT
8	STATEMENT OF FINANCIAL POSITION
9	STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 30 JUNE 2015
10	STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD ENDED 30 JUNE 2015
11	CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2015
12 - 19	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
20 - 52	ACCOUNTING POLICIES
53 - 107	NOTES TO THE ANNUAL FINANCIAL STATEMENTS
107	THE FOLLOWING SCHEDULES ARE UNAUDITED:



FINAL

## Lekwa Local Municipality

(Registration number MP305)

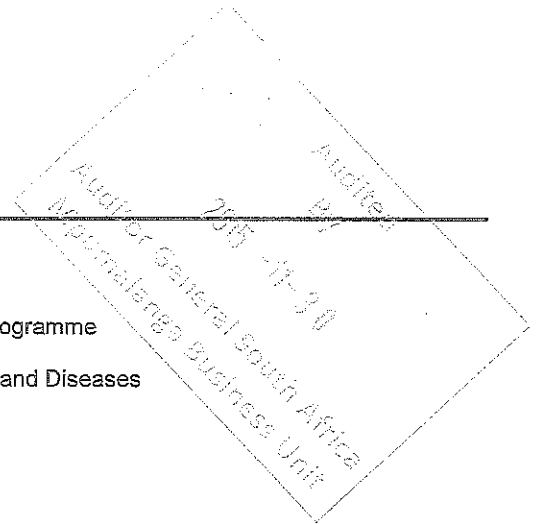
Annual Financial Statements for the year ended 30 June 2015

### Index

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#### Acronyms

CMIP	Consolidated Municipal Infrastructure Programme
COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
GLCCM	General Landfill Closure Costing Model
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
LSA	Long Service Awards
MEC	Member of the Executive Council
ME'S	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MLCCM	Municipal Landfill Closure Costing Model
NDP	Neighbourhood Development Programme
NDPG	Neighbourhood Development Partnership Grant
PEMA	Post-employment Medical Aid subsidy liability
SA GAAP	South African Statements of Generally Accepted Accounting Practice



FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Officers' Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

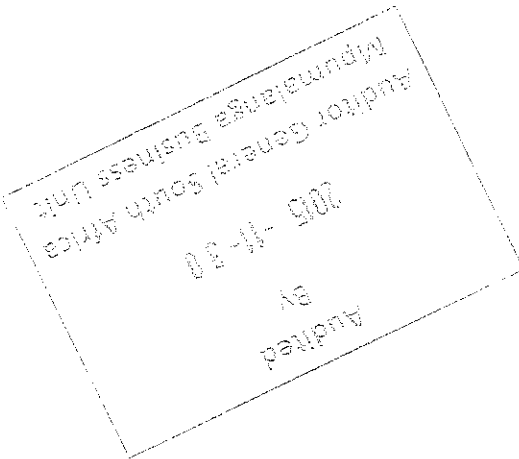
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditor and their report is presented on page 6.

The annual financial statements set out on pages 6 to 107, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015.

L.B. Tshabalala  
Municipal Manager



FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

#### 1. Review of activities

##### Main business and operations

The municipality is a local municipality.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was 152,918,411 (2014: deficit 128,736,084).

#### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

#### 3. Subsequent events

The accounting officer is aware of matters or circumstances arising since the end of the financial year.

A new Executive Mayor was appointed on 29 July 2015.

A new Chief Financial Officer was appointed on 1 July 2015.

#### 4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

#### 5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

#### 6. Non-current assets

Refer to note 3,4 and 5 for changes to Non-Current Assets.

#### 7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
L.B. Tshabalala	South African

#### 8. Corporate governance

##### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Officer's Report

---

#### Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

#### Audit Committee

The Audit Committee members for the period under review were as follows:

Position	Name	Date appointed
Chairperson:	Mr. A C Keyser	2014-04-25
Members:	Mr. Z Fihlani	2014-04-25
	Mr. D W Prenzler	2015-04-30
	Mr. N Balkrishen	2014-04-25
	Ms. A Badimo	2014-04-25
		2014-11-27 Resigned

In terms of Section 166 of the Municipal Finance Management Act (Act 56 of 2003), the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

#### Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

#### 9. Bankers

First National Bank Limited is used for daily operations as well as investing of grant funding.

#### 10. Auditor

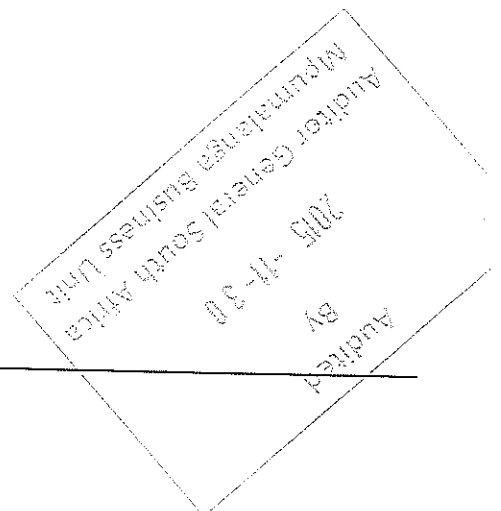
Auditor-General South Africa will continue in office for the next financial period.

#### 11. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts and
- any service credits.

Lekwa Local Municipality did not enter into any Public Private Partnership for the 2014/2015 financial year, nor does it have any existing PPP's.





FINAL

**Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

**Statement of Financial Position as at 30 June 2015**

		2015	2014 Restated*
	Note(s)		
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	12	33,620,732	31,944,204
Consumer debtors	11	51,739,662	55,671,617
Inventories	7	2,858,868	2,617,556
Other financial assets	5	72,326	69,695
Receivables from exchange transactions	8	23,393,458	9,828,191
Receivables from non-exchange transactions	9	263,422	-
VAT receivable	10	5,437,787	-
<b>Total Current Assets</b>		<b>117,386,255</b>	<b>100,131,263</b>
<b>Non-Current Assets</b>			
Investment property	3	10,878,087	11,320,290
Property, plant and equipment	4	1,804,472,483	1,877,144,040
Other financial assets	5	20,708,077	20,708,077
		<b>1,836,058,647</b>	<b>1,909,172,407</b>
<b>Total Assets</b>		<b>1,953,444,902</b>	<b>2,009,303,670</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	17	2,949,438	2,812,694
Employee benefit obligation	6	3,099,797	2,966,224
Payables from exchange transactions	15	364,369,318	317,643,278
Provisions	14	105,474,287	53,546,988
Unspent conditional grants and receipts	13	1,236,472	4,596,917
VAT payable	16	-	1,241,768
<b>Total Current Liabilities</b>		<b>477,129,312</b>	<b>382,807,869</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	6	76,387,655	70,019,841
Provisions	14	27,732,139	31,361,743
		<b>104,119,794</b>	<b>101,381,584</b>
<b>Total Liabilities</b>		<b>581,249,106</b>	<b>484,189,453</b>
<b>Net Assets</b>		<b>1,372,195,796</b>	<b>1,525,114,217</b>
Accumulated surplus		1,372,195,796	1,525,114,217

\* See Note 41

2015-11-30  
 Lekwa Local Municipality  
 Annual Financial Statements for the year ended 30 June 2015

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# Lekwa Local Municipality

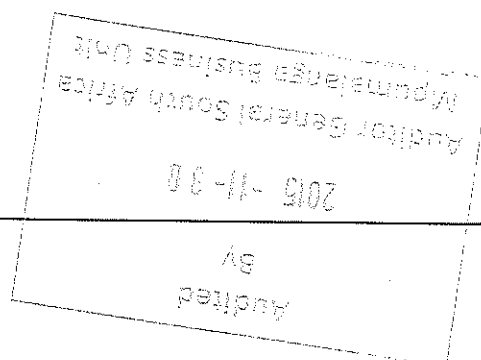
(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance for the period ended 30 June 2015

		2015	2014 Restated*
	Note(s)		
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	276,520,016	232,626,279
Agency services		14,496,424	8,703,823
Rental income		1,720,958	1,752,873
Other income	25	1,294,588	1,149,411
Interest received		26,108,184	19,572,722
<b>Total revenue from exchange transactions</b>		<b>320,140,170</b>	<b>263,805,108</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	51,583,133	37,545,660
<b>Transfer revenue</b>			
Government grants	23	127,612,445	146,427,131
Fines, Penalties and Forfeits		3,627,652	1,634,932
Other Government grants	24	22,472,197	20,407,016
<b>Total revenue from non-exchange transactions</b>		<b>205,295,427</b>	<b>206,014,739</b>
<b>Total revenue</b>	19	<b>525,435,597</b>	<b>469,819,847</b>
<b>Expenditure</b>			
Employee related costs	28	128,930,970	112,717,947
Remuneration of councillors	29	9,496,039	10,575,892
Depreciation	31	110,903,853	115,478,683
Impairment loss	32	3,456,777	1,308,250
Finance costs	33	27,401,008	23,374,404
Lease rentals on operating lease		224,438	-
Debt Impairment	30	85,051,869	47,720,689
Repairs and maintenance	20	17,894,195	29,869,317
Bulk purchases	36	223,284,432	198,025,922
Contracted services	35	32,012,741	25,776,136
Loss on disposal of asset		322,720	-
General Expenses	26	43,078,718	40,316,335
<b>Total expenditure</b>		<b>682,057,760</b>	<b>605,163,575</b>
<b>Operating deficit</b>	27	<b>(156,622,163)</b>	<b>(135,343,728)</b>
Actuarial gains/losses	6	3,775,292	(1,168,185)
Inventories losses/write-downs	7	(71,540)	(82,271)
		<b>3,703,752</b>	<b>(1,250,456)</b>
<b>Deficit for the year</b>		<b>(152,918,411)</b>	<b>(136,594,184)</b>

\* See Note 41



FINAL

# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets for the period ended 30 June 2015

	Accumulated surplus	Total net assets
Opening balance as previously reported	1,562,409,691	1,562,409,691
Adjustments		
Prior year adjustments	99,298,710	99,298,710
Balance at 01 July 2013 as restated*	1,661,708,401	1,661,708,401
Changes in net assets		
Deficit for the year	(136,594,184)	(136,594,184)
Total changes	(136,594,184)	(136,594,184)
Opening balance as previously reported	1,433,571,630	1,433,571,630
Adjustments		
Prior year adjustments	91,542,577	91,542,577
Restated* Balance at 01 July 2014 as restated*	1,525,114,207	1,525,114,207
Changes in net assets		
Deficit for the year	(152,918,411)	(152,918,411)
Total changes	(152,918,411)	(152,918,411)
Balance at 30 June 2015	1,372,195,796	1,372,195,796
Note(s)		

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2015-11-10  
Auditor General South Africa  
Municipalities Business Unit

\* See Note 41

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# Lekwa Local Municipality

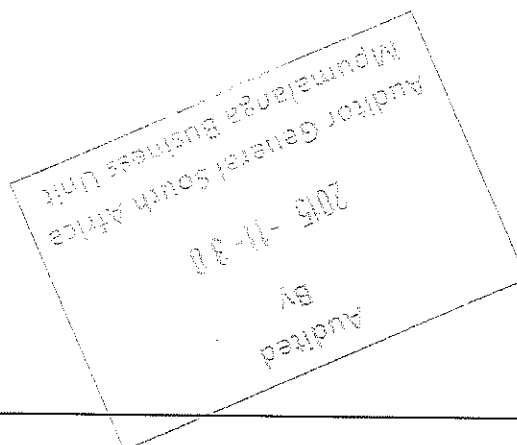
(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Cash Flow Statement for the period ended 30 June 2015

	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		33,879,826	22,380,071
Sale of goods and services		218,041,740	205,415,788
Grants		150,168,104	150,495,807
Interest income		26,108,184	19,572,722
		428,197,854	397,864,388
<b>Payments</b>			
Employee costs		(133,420,177)	(115,338,558)
Suppliers		(226,669,609)	(177,525,255)
Finance costs		(27,401,008)	(23,374,404)
		(387,490,794)	(316,238,217)
<b>Net cash flows from operating activities</b>	37	<b>40,707,060</b>	<b>81,626,171</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(39,369,394)	(44,819,689)
Proceeds from sale of property, plant and equipment	4	341,492	-
Increase in financial assets		(2,631)	(20,710,414)
<b>Net cash flows from investing activities</b>		<b>(39,030,533)</b>	<b>(65,530,103)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		-	(1,101,945)
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>(1,101,945)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,676,527</b>	<b>14,994,123</b>
Cash and cash equivalents at the beginning of the year		31,944,204	16,949,634
<b>Cash and cash equivalents at the end of the year</b>	12	<b>33,620,731</b>	<b>31,943,757</b>

\* See Note 41



# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	307,552,810	1,749,190	309,302,000	276,520,016	(32,781,984)	Management projected an increase in revenue to cover for the losses incurred in the past. Although an increase in revenue occurred by 13.33% it was less than was anticipated.
Agency services	16,331,260	32,054,450	48,385,710	14,496,424	(33,889,286)	Management budgeted for the gross revenue to be received and not the agency fee part thereof.
Rental income	594,790	(5,544)	589,246	1,720,958	1,131,712	Based on the community utilise the facilities. Increase in community facilities used.
Other income - (rollup)	1,539,670	456,132	1,995,802	1,294,588	(701,214)	Revenue over stated in budget. The initial budget was based on significant increase in revenue to cover the loss for the year.
Interest received	18,455,290	6,824,448	25,279,738	26,108,184	828,446	Due to non payment rate of consumers an increase occurred on interest charged.
<b>Total revenue from exchange transactions</b>	<b>344,473,820</b>	<b>41,078,676</b>	<b>385,552,496</b>	<b>320,140,170</b>	<b>(65,412,326)</b>	

# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	52,600,000	7,939,954	60,539,954	51,583,133	(8,956,821)	Management did not account for the rabates issued to consumers. This reduces the gross income of revenue as per GRAP 23.
<b>Transfer revenue</b>						
Government grants & subsidies	90,234,900	-	90,234,900	127,612,445	37,377,545	Includes capex grants recognised as revenue
Fines, Penalties and Forfeits	2,907,070	(2,405,339)	501,731	3,627,652	3,125,921	Increase in fines collected for the year.
Other Government grants	-	-	-	22,472,197	22,472,197	Human settlement grant received during the year not budget for.
<b>Total revenue from non-exchange transactions</b>	<b>145,741,970</b>	<b>5,534,615</b>	<b>151,276,585</b>	<b>205,295,427</b>	<b>54,018,842</b>	
<b>Total revenue</b>	<b>490,215,790</b>	<b>46,613,291</b>	<b>536,829,081</b>	<b>525,435,597</b>	<b>(11,393,484)</b>	
<b>Expenditure</b>						
Personnel	(127,068,000)	3,702,060	(123,365,940)	(128,930,970)	(5,565,030)	Overtime increase as well as increase in leave provision for the year.
Remuneration of councillors	(10,503,061)	-	(10,503,061)	(9,496,039)	1,007,022	Overstated of council remuneration.
Depreciation and amortisation	(139,196,260)	23,676,260	(115,520,000)	(110,903,853)	4,616,147	Overstatement on preparation of the budget.
Impairment loss/ Reversal of impairments	-	-	-	(3,456,777)	(3,456,777)	iGrap 1 impairment on subsequent measurement of Traffic income.

# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Finance costs	(764,360)	(6,567)	(770,927)	(27,401,008)	(26,630,081)	Eskom interest on overdue account not budgeted for.
Lease rentals on operating lease	-	-	-	(224,438)	(224,438)	Not known at the time of the budget. New contract.
Debt impairment	(90,817,600)	22,455,424	(68,362,176)	(85,051,869)	(16,689,693)	preparation. Anticipated that revenue collection rate will improve.
Repairs and maintenance	(17,407,850)	(3,060,097)	(20,467,947)	(17,894,195)	2,573,752	Expenditure reduced due to cash flow challenges
Bulk purchases	(213,085,330)	-	(213,085,330)	(223,284,432)	(10,199,102)	Increase in bulk usage by the Municipality.
Contracted Services	(26,339,660)	(12,469,671)	(38,809,331)	(32,012,741)	6,796,590	Expenditure reduced due to cash flow challenges
Transfers and Subsidies	(11,393,470)	3,358,328	(8,035,142)	-	8,035,142	Classified as part of income as required by GRAP 9.
Actuarial Loss	-	-	-	(322,720)	(322,720)	
General Expenses	(46,474,680)	11,654,853	(34,819,827)	(43,078,718)	(8,258,891)	Expenditure understated during budget phase.
<b>Total expenditure</b>	<b>(683,050,271)</b>	<b>49,310,590</b>	<b>(633,739,681)</b>	<b>(682,057,760)</b>	<b>(48,318,079)</b>	
<b>Operating deficit</b>	<b>(192,834,481)</b>	<b>95,923,881</b>	<b>(96,910,600)</b>	<b>(156,622,163)</b>	<b>(59,711,563)</b>	
Actuarial gains/losses	-	-	-	3,775,292	3,775,292	
Inventories losses/write-downs	-	-	-	(71,540)	(71,540)	Not known at the time of the budget preparation
	-	-	-	3,703,752	3,703,752	
<b>Deficit before taxation</b>	<b>(192,834,481)</b>	<b>95,923,881</b>	<b>(96,910,600)</b>	<b>(152,918,411)</b>	<b>(56,007,811)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(192,834,481)</b>	<b>95,923,881</b>	<b>(96,910,600)</b>	<b>(152,918,411)</b>	<b>(56,007,811)</b>	

# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	2,092,649	-	2,092,649	2,858,868	766,219	Increased inventory kept on hand
Other financial assets	-	-	-	72,326	72,326	
Receivables from exchange transactions	-	-	-	23,393,458	23,393,458	Includes additional grant received.
Receivables from non-exchange transactions	6,306,123	-	6,306,123	263,422	(6,042,701)	Not known at the time of the budget preparation
VAT receivable	-	-	-	5,437,787	5,437,787	
Consumer debtors	87,349,703	-	87,349,703	51,739,662	(35,610,041)	The budget was understated due to final assessment of debtor impairment not known at the time of the budget preparation
Cash and cash equivalents	34,921,570	-	34,921,570	33,620,732	(1,300,838)	Includes call account balances.
	<b>130,670,045</b>	<b>-</b>	<b>130,670,045</b>	<b>117,386,255</b>	<b>(13,283,790)</b>	
<b>Non-Current Assets</b>						
Investment property	10,868,992	-	10,868,992	10,878,087	9,095	Not known at the time of the budget preparation
Property, plant and equipment	1,797,657,668	-	1,797,657,668	1,804,472,483	6,814,815	Not known at the time of the budget preparation
Other financial assets	-	-	-	20,708,077	20,708,077	
	<b>1,808,526,660</b>	<b>-</b>	<b>1,808,526,660</b>	<b>1,836,058,647</b>	<b>27,531,987</b>	
<b>Total Assets</b>	<b>1,939,196,705</b>	<b>-</b>	<b>1,939,196,705</b>	<b>1,953,444,902</b>	<b>14,248,197</b>	

### Liabilities

#### Current Liabilities



# Lekwa Local Municipality

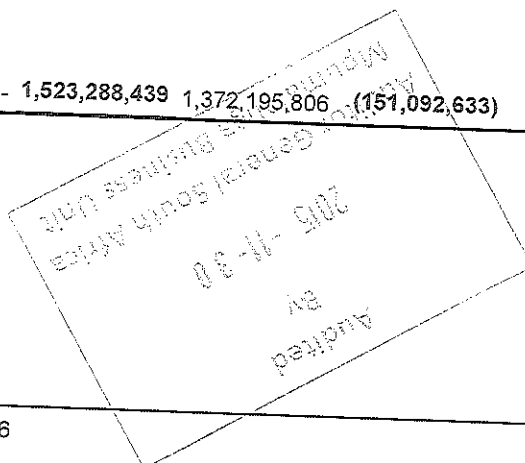
(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Payables from exchange transactions	318,849,901	-	318,849,901	364,369,308	45,519,407	Understated presumed that the Eskom, DWA & MP would be paid during the financial period
Consumer deposits	2,789,313	-	2,789,313	2,949,438	160,125	Deposits understated
Employee benefit obligation	-	-	-	3,099,797	3,099,797	Not known at the time of the budget preparation
Unspent conditional grants and receipts	-	-	-	1,236,472	1,236,472	Not known at the time of the budget preparation
Provisions	-	-	-	105,474,287	105,474,287	Not known at the time of the budget preparation
	321,639,214	-	321,639,214	477,129,302	155,490,088	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	76,387,655	76,387,655	Not known at the time of the budget preparation
Provisions	94,269,052	-	94,269,052	27,732,139	(66,536,913)	Not known at the time of the budget preparation
	94,269,052	-	94,269,052	104,119,794	9,850,742	
<b>Total Liabilities</b>	415,908,266	-	415,908,266	581,249,096	165,340,830	
<b>Net Assets</b>	1,523,288,439	-	1,523,288,439	1,372,195,806	(151,092,633)	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,523,288,439	-	1,523,288,439	1,372,195,806	(151,092,633)	



# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation	-	32,626,520	32,626,520	33,879,826	1,253,306	Not budgeted for separately. Included in Service charges.
Sale of goods and services	284,207,000	7,029,917	291,236,917	221,594,212	(69,642,705)	Low collection rate resulted in lower collection of service charges.
Grants	129,178,000	34,655,891	163,833,891	148,718,237	(15,115,654)	Additional grants received not budgeted for.
Interest income	-	-	-	26,276,285	26,276,285	Interest accounted for under sale of goods in budget. Disclosed separately for accounting purposes as per GRAP 9.
	413,385,000	74,312,328	487,697,328	430,468,560	(57,228,768)	

# Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Payments</b>						
Employee costs	(137,571,061)	3,702,501	(133,868,560)	(131,245,432)	2,623,128	Overtime not budgeted for
Suppliers	(308,511,569)	(902,794,177)	(1,211,305,746)	(219,711,245)	991,594,501	Actual expenditure was reduce substantially as part of the cost curtailment to align expenditure in line with reduced revenue streams
Finance costs	-	-	-	(31,820,713)	(31,820,713)	Interest for arrears on Eskom account due to cash flow constraints not budgeted for.
Other payments	(34,784,300)	(44,116,117)	(78,900,417)	(2,805,100)	76,095,317	Included as part of suppliers & employee payments
	(480,866,930)	(943,207,793)	(1,424,074,723)	(385,582,490)	1,038,492,233	
<b>Net cash flows from operating activities</b>	(67,481,930)	(868,895,465)	(936,377,395)	44,886,070	981,263,465	

# Lekwa Local Municipality

(Registration number MP305)

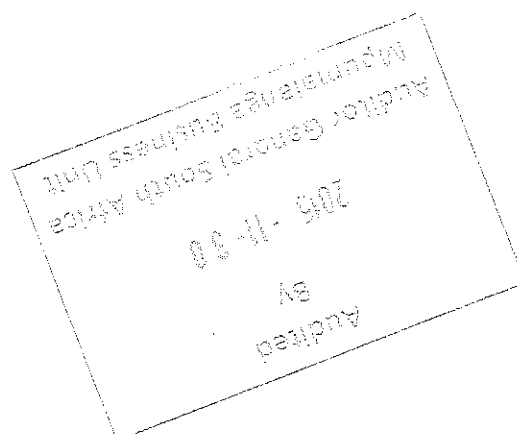
Annual Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	-	-	-	(39,826,623)	(39,826,623)	Capital additions not included in budget of the cashflow statement.
Proceeds from sale of property, plant and equipment	-	-	-	341,480	341,480	Disposal of assets not known at budget stage.
Purchase of financial assets	-	-	-	(2,631)	(2,631)	Increase in Nedbank accounts. Relates to interest earned.
<b>Net cash flows from investing activities</b>	-	-	-	(39,487,774)	(39,487,774)	
Net increase/(decrease) in cash and cash equivalents	(67,481,930)	(868,895,465)	(936,377,395)	5,398,296	941,775,691	
<b>Cash and cash equivalents at the end of the year</b>	(67,481,930)	(868,895,465)	(936,377,395)	5,398,296	941,775,691	

The accounting policies on pages 20 to 52 and the notes on pages 53 to 107 form an integral part of the annual financial statements.



FINAL

## **Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### **Accounting Policies**

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#### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

##### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

##### **1.2 Going concern assumption**

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

##### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

###### **Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

###### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

###### **Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

FINAL

## **Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### **Accounting Policies**

---

#### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

##### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the note of Provisions.

##### **Useful lives of Property, Plant and Equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

##### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Note.

##### **Effective interest rate**

The municipality used the prime interest rate to discount future cash flows.

##### **Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

##### **Offsetting**

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the Investment property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	20 - 50 Years
Plant and machinery	2 - 15 Years
Furniture and fixtures	2 - 10 Years
Motor vehicles	2 - 10 Years
Office equipment	2 - 10 Years
IT equipment	2 - 5 Years
Computer software	1 Year
Infrastructure	1 - 65 Years
Community	2 - 50 Years
Other property, plant and equipment	5 Years
Workshop Equipment	5 Years
Laboratory equipment	5 Years
Specialised vehicles	10 Years
Other Specialized Equipment	5 Years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.



FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

#### 1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

#### 1.7 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

#### 1.7 Financial instruments (continued)

##### Classification

###### Financial assets

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

- (a) derivatives;
- (b) combined instruments that are designated at fair value
- (c) instruments held for trading.
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are shortterm

highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of six months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

###### Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

The entity has the following types of financial liabilities as reflected on the face of the statement of financial position or in the notes thereto:

The municipality has the following classes of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Type of Financial Asset

Trade Debtors from Exchange Transactions  
Consumer Debtors From Exchange Transactions  
Trade Debtors from Non Exchange Transactions  
Consumer Debtors From Non Exchange Transactions  
Investments  
Cash and cash equivalents

##### Classification in terms of GRAP 104

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value  
Financial asset measured at fair value

The entity has the following classes of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Type of Financial Liabilities

Payables from Exchange Transactions  
Consumer Deposits

##### Classification in terms of GRAP 104

Financial liability measured at amortised cost  
Financial liability measured at amortised cost

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.7 Financial instruments (continued)

VAT Payable

Unspent Conditional Grants

Employee benefit provisions

Provisions

Financial liability measured at amortised cost

Financial liability measured at amortised cost

Financial liability measured at amortised cost

Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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## Accounting Policies

### 1.7 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.7 Financial instruments (continued)

##### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.



## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

##### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

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## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

##### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

##### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# **Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

### **1.10 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

When an asset becomes unavailable to continue with its service delivery potential, and asset is classified from cash-generating to non-cash-generating.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease. When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP. After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.10 Impairment of cash-generating assets (continued)

##### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

##### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

##### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.10 Impairment of cash-generating assets (continued)

##### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

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#### 1.10 Impairment of cash-generating assets (continued)

##### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

# **Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

### **1.11 Impairment of non-cash-generating assets (continued)**

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.11 Impairment of non-cash-generating assets (continued)

##### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

#### 1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.



FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.12 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

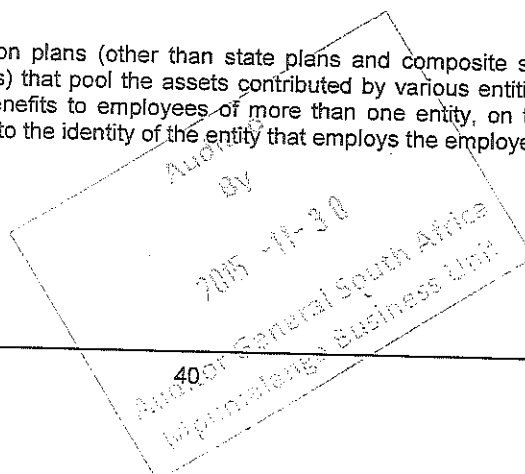
The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.12 Employee benefits (continued)

##### Post-employment benefits: Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on the straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

# FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.12 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit.

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.12 Employee benefits (continued)

##### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

#### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Audited  
By  
2015-11-30  
Auditor General South Africa  
Mpumalanga Business Unit

**Lekwa Local Municipality**

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

**Accounting Policies**

---

**1.13 Provisions and contingencies (continued)****Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

**1.14 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality.

# FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.14 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

#### 1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

##### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

##### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

FINAL

## Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2015

### Accounting Policies

---

#### 1.15 Revenue from exchange transactions (continued)

##### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### 1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. There is uncertainty regarding the probability of the flow of economic benefits in respect of criminal procedure act fines. Legal processes have to be undertaken before the criminal procedure act fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.